

CORPORATION
FOR NATIONAL
★ SERVICE

May 31, 2002

The Honorable Richard Cheney
President of the Senate
Washington, DC 20510

The Honorable Dennis Hastert
Speaker of the House of Representatives
The Capitol
Washington, DC 20515

Dear Mr. Vice President and Mr. Speaker:

Enclosed is the Inspector General's Semi-Annual Report to the Congress along with the Corporation's Report on Final Action, as required under Section 5 of the Inspector General Act.

These reports cover the six-month period from September 30, 2001 through March 31, 2002. During this period, the Corporation made management decisions on nine audits and completed final action on or closed 45 audits. Subsequent to this period, the Corporation made a management decision on one additional audit.

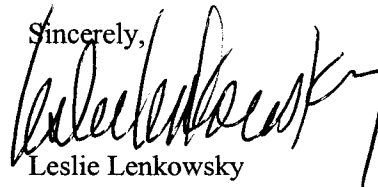
The Corporation is pleased that we received an unqualified opinion on our financial statements for the second year in a row. The Corporation also had no material weaknesses related to its financial activities and corrective action related to the one remaining reportable condition, grants management, is well underway. A significant corrective action, a comprehensive electronic grants management system, is on schedule. Staff training on the new system began in early May and Senior Corps grantees will all receive hands-on training in June 2002. Once the system is fully implemented, all aspects of grant operations from applying for funds to grantee monitoring and reporting on financial and program activities will be done on-line.

As you will see in the report itself, Corporation management and OIG representatives worked closely over the last six months to review all open audit recommendations. We resolved many open issues and agreed on the major areas that need attention. We are pleased with this progress and are continuing to work closely together on audit resolution.

We are sending copies of this semi-annual report to interested Congressional committees, the Office of Management and Budget, and the Corporation's Board of Directors. We will also make copies available to others on request.

If you have any questions concerning these reports, please contact me or Terry Bathen, the Corporation's Acting Inspector General.

Sincerely,



Leslie Lenkowsky
Chief Executive Officer



TABLE I
ACTION TAKEN ON AUDIT REPORTS
(for the Period September 30, 2001 through March 31, 2002)

	<u>Number of Reports</u>	<u>Disallowed Costs (\$000)</u>
A. Audit reports with final action not taken by the commencement of the reporting period.	57	
B. Audit reports issued by the OIG during the period	10	
C. Audit reports for which final action was taken during the reporting period ¹	45	
1. Recoveries		
(a) Collections and offsets	4	138
(b) Property in lieu of cash		
(c) Other (reduction of questioned costs)		
2. Write-offs	0	
3. Audits with no disallowed costs	41	
D. Audit reports for which final action was not taken by the end of the reporting period. ²	22	
E. <hr/> Audit reports for which management decisions were made during or prior to the six-month reporting period and for which final action is underway. ³	15	

¹ This includes 6 audit reports closed because no corrective action was necessary.

² This includes 14 audits for which final action is not due.

³ Management decisions on 13 of these audits were made in previous reporting periods or are not yet due.

TABLE II
AUDITS WITH RECOMMENDATIONS TO PUT FUNDS TO BETTER USE
(for the period September 30, 2001 through March 31, 2002)

	<u>Number of Audit Reports</u>	<u>Dollar value (\$000s)</u>
A. Audit reports with management decisions on which final action had not been taken at the beginning of the period.	0	-
B. Audits which were issued during the period	1	62
C. Total audit reports on which management decisions were made during the period.	0	-
D. Audit reports pending action during the period	1	-
E. Audit reports for which final action was taken during the period	0	-
1. Value of recommendations that were completed	0	-
2. Value of recommendations that management concluded should not or could not be implemented or completed	0	0
3. Total of 1 and 2	0	-
F. Audit reports for which no management decisions were made during the reporting period	1	62

TABLE III

**STATUS OF AUDIT REPORTS WITH MANAGEMENT DECISIONS THAT HAD NO FINAL
ACTION WITHIN ONE YEAR OF THE ISSUANCE OF THE REPORT
(As of May 31, 2001)**

<u>Audit Number</u>	<u>Date Issued</u>	<u>Title</u>	<u>Disallowed Costs</u>	<u>Status of Action/Reason No Final Action Was Taken</u>
99-09	5/6/99	Audit of Corporation Contracts with Biopheries, Inc	TBD	The Corporation must complete incurred cost audits to verify the labor hours worked and other direct and indirect costs incurred for fiscal years 1996 – 1998. The estimated completion date of this review is July 5, 2002.
99-10	8/2/99	Audit of Corporation Contracts with TvT, Inc.	\$294,094	In Appeal. The Corporation has offered two equitable adjustments to the Contractor. The contractor rejected the first equitable adjustment and is currently evaluating the second. If the contractor rejects our second and (final) equitable adjustment then this matter will be referred to the Armed Forces Board of Contract Appeals.
99-18	8/27/99	Audit of Corporation Contracts with GS Tech, Inc	TBD	The Corporation is currently reviewing the direct and indirect costs incurred on this contract. We plan to issue an equitable adjustment and revise the contract terms to reflect the T&M rates the contractor is entitled to bill at. We have requested the contractor to provide us with actual indirect rates incurred during the period of contract performance so that T&M rates can be negotiated. The anticipated completion date of this review is June 7, 2002.
00-06	5/18/00	Pre-audit Survey Report of the Delaware Community Service Commission	N/A	Final action will be completed in conjunction with the resolution process for the audit of the Commission's grants, Audit Report 01-05, described below.
00-21	1/6/00	Audit of the Corporation's Contract with Outsourced Administrative Systems	TBD	The Corporation is in the process of performing incurred costs audits for fiscal years 1994-1998. The OIG audit had a high percentage of questioned administrative and medical billing costs that will take a significant amount of time to resolve. Therefore, we have temporarily placed audit resolution on hold until we can complete audit resolution on the other OIG audit reports. The estimated completion date December 15, 2002.

<u>Audit Number</u>	<u>Date Issued</u>	<u>Title</u>	<u>Disallowed Costs</u>	<u>Status of Action/Reason No Final Action Was Taken</u>
00-22	9/21/00	Audit of the Corporation's Contract with Encore Management Corp.	TBD	The Corporation needs to review the direct and indirect costs claimed and incurred during fiscal years 1994-1998. We anticipate issuing an equitable adjustment to address contract rates that were not included in the contract terms. The estimated completion date of this review is August 30, 2002.
00-24	8/8/00	Pre-Audit Survey Report of the Alaska Service Commission	N/A	The Corporation issued its Management Decision on March 30, 2001. Final action will be completed as a result of the Administrative Standards Review scheduled for July 2002.
01-05	1/11/01	Audit of Grants awarded to the Delaware Community Service Commission	TBD	The Corporation is in the process of reviewing material submitted by the Delaware Community Service Commission to support costs questioned in the audit. The estimated completion date of this review is June 28, 2002.